

BANKRUPTCY



**Office of the Staff Judge
Advocate
Eielson AFB, Alaska**

354 FW/JA
**Legal Assistance & Preventive
Law
Pamphlet Series**

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INTRODUCTION

Bankruptcy is a federal court proceeding that might allow a person with large debts to get a “fresh start” by freeing him or her from many or all of the debts. At the same time, a trustee of the court can sell the person’s property (unless it’s exempt) and divide the proceeds to pay off the person’s creditors.

SHOULD I CONSIDER BANKRUPTCY?

It is your statutory right to declare bankruptcy. However, the exercise of that right has consequences. The Air Force views bankruptcy in a strictly neutral light. In fact, it is illegal for any federal or state agency to discriminate against you for the exercise of your right to declare bankruptcy. This does not mean that filing for bankruptcy won’t affect your military career. It can affect your security clearance as well as other aspects of your military career specific to your career field. Additionally, private agencies can, and do, discriminate against people who declare bankruptcy.

The decision you must make is whether or not the consequences in terms of lost credit and discrimination outweigh the benefits. Those benefits can be quite substantial. Virtually all your unsecured debt will be wiped out. You will have a fresh start. On the other hand, you will have at least seven years of bad credit. Make your decision carefully.

EXEMPT PROPERTY IN ALASKA

Only certain property is exempt from being seized and sold to pay creditors. The following property is exempt in Alaska:

- Up to \$54,000 equity in a house. A.S. § 09.38.010
- 20% of a permanent fund dividend. A.S. § 09.38.015.

- The interest of the individual in a retirement plan and the money or other assets payable to the individual from a retirement plan. A.S. § 09.38.017
- Certain household items provided the total value is \$3,000 or less which includes household goods, wearing apparel, books, musical instruments, family portraits, and heirlooms of sentimental value to the individual. A.S. § 09.38.020(a).
- One motor vehicle to the extent of a value not exceeding \$3,000 if the full value of the vehicle does not exceed \$20,000. A.S. § 09.38.020(e).
- With some limitations, unmatured life insurance and annuity contracts owned by the individual. A.S. § 09.38.025.
- The individual debtor’s weekly net earnings not to exceed \$350. A.S. § 09.38.030.

Your property is valued at the time of filing; not at the time you purchased it. It is assessed at fair market value, which is the amount someone would pay for your property if it were to be sold.

Additionally, in some cases, a married couple may be able to claim a **double** exemption amount.

There are exceptions to the exemptions if you owe child support, spousal support, or state and federal taxes. To satisfy these debts, you might be forced to sell even exempt property.

HOW DOES BANKRUPTCY WORK?

Bankruptcy begins by filing a petition in federal bankruptcy court listing your debts and property. A bankruptcy trustee then holds a hearing to review the petition, determine your debts, and plan repayment.

Non-exempt property may then be sold and the proceeds divided among the creditors. Property

worth more than the exempt amount may be sold and the exempt amount returned to you. For example, if you own a house worth \$120,000, the trustee can sell the house and give you back \$54,000, the exempt amount.

Later, a second hearing will be held where you may receive a final discharge from your debts.

WILL BANKRUPTCY CANCEL ALL DEBTS?

No. It does not cancel spousal or child support, state or federal taxes, most student loans, and any debts that you failed to list in your bankruptcy petition. Also, any debts procured by fraud are not discharged by the bankruptcy. It may not cancel "secured debts." A debt is secured if you gave the seller or the money-lender the right to repossess the property or goods used as collateral.

If you are married and your debts arose during the marriage, both spouses need to file bankruptcy or all the debts will be transferred to the other spouse.

BANKRUPTCY AND CREDIT

Not all creditors react the same way to bankruptcy, but your credit will be hurt. This does not mean that you will not be able to obtain credit. Some companies extend credit to individuals that have declared bankruptcy because they know that you can only file bankruptcy once every six years. However, you can expect the interest rates on such credit to be abnormally high.

ALTERNATIVES TO BANKRUPTCY

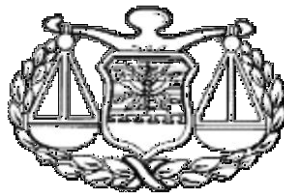
Contact your creditors, explain the situation, and ask that they agree to restructure your debts so that you can meet the revised payments.

You can consult with a "Consumer Credit Counseling Service" which will assist you in finding a way to pay your debts and help negotiate with your creditors. This is a non-profit service that charges a modest fee to assist you.

Another alternative is a "Debt Adjustment Plan" under Chapter 13 of the Bankruptcy Code. This court-controlled plan allows you to pay your bills through the court over a period of time. It stops interest from accruing on some debts, and you may not have to pay 100% of the amount owed on other debts. This plan keeps creditors from suing you, garnishing your wages, or taking other legal action to collect while you are making payments under the plan.

Avoid finance companies which offer debt consolidation plans. Such companies charge high interest rates and tie up much of your property as collateral.

This pamphlet is for basic information on bankruptcy as it relates to military personnel stationed in Alaska. It is not intended to take the place of legal advice from a Judge Advocate. There may be important exceptions in some states to the information presented here. Please contact the 354th Fighter Wing Legal Office for questions and further information.



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